# **Chapter 2**

## Transaction Analysis

### Short Exercises

**(5 min.) S 2-1**

**Hooper’s payment was *not* an expense.**

**Hooper acquired an *asset*, Equipment, because the computer is an economic resource of the business.**

**(5 min.) S 2-2**

**a. $13,400 ($11,000 + $2,400 + $5,500 − $5,500)**

**b. $ 2,400**

**(5-10 min.) S 2-3**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  |  | | | |
|  | **27,000** |  | **3,500** |  |  |  |  |  |
|  | **2,200** |  |  |  |  |  |  |  |
| **Bal.** | **25,700** |  |  |  |  |  |  |  |

**(5 min.) S 2-4**

**Increased total assets: April 1 (Cash)**

**April 1 (Medical supplies)**

**April 3 (Cash, Accounts Receivable)**

**(5-10 min.) S 2-5**

**a. Purchase of asset for cash**

**Sale of asset for cash**

**Collection of an account receivable**

**b. Payment of dividends to owners**

**Expense transaction**

**c. Pay a liability**

**Return an asset purchased on account**

**d. Issuance of stock**

**Revenue transaction**

**e. Purchase of asset on account**

**Borrow money**

**(Answers may vary.)**

**(10 min.) S 2-6**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Journal | | | | | |
| **DATE** | | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | | **CREDIT** |
|  |  |  |  |  | |
| **Mar.** | **15** | **Cash……………………………………** | **31,000** |  | |
|  |  | **Note Payable………………………** |  | **31,000** | |
|  |  | **Borrowed money from the bank.** |  |  | |
|  |  |  |  |  | |
|  | **22** | **Accounts Receivable……………….** | **8,900** |  | |
|  |  | **Service Revenue………………….** |  | **8,900** | |
|  |  | **Performed service on account.** |  |  | |
|  |  |  |  |  | |
|  | **28** | **Cash……………………………………** | **5,600** |  | |
|  |  | **Accounts Receivable…………….** |  | **5,600** | |
|  |  | **Received cash on account.** |  |  | |
|  |  |  |  |  | |
|  | **29** | **Utilities Expense…………………….** | **900** |  | |
|  |  | **Accounts Payable………………..** |  | **900** | |
|  |  | **Received utility bill.** |  |  | |
|  |  |  |  |  | |
|  | **31** | **Salary Expense………………………** | **2,600** |  | |
|  |  | **Cash…………………………………** |  | **2,600** | |
|  |  | **Paid salary expense.** |  |  | |

**(10-15 min.) S 2-7**

### *Req. 1*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Journal | | | | |
| **DATE** | | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
|  |  | **Supplies………………………………..** | **1,700** |  |
|  |  | **Accounts Payable…………………** |  | **1,700** |
|  |  | **Purchased supplies on account.** |  |  |
|  |  |  |  |  |
|  |  | **Accounts Payable……………………** | **425** |  |
|  |  | **Cash…………………………………** |  | **425** |
|  |  | **Paid cash on account.** |  |  |

### *Req. 2*

|  |  |  |  |
| --- | --- | --- | --- |
| **Accounts Payable** | | | |
|  | **425** |  | **1,700** |
|  |  | **Bal.** | **1,275** |

### *Req. 3*

The business owes $1,275, as shown in the Accounts Payable account.

**(10-15 min.) S 2-8**

### *Req. 1*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Journal | | | | |
| **DATE** | | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
|  |  | **Accounts Receivable** | **4,700** |  |
|  |  | **Service Revenue…………………..** |  | **4,700** |
|  |  | **Performed service on account.** |  |  |
|  |  |  |  |  |
|  |  | **Cash** | **3,000** |  |
|  |  | **Accounts Receivable** |  | **3,000** |
|  |  | **Received cash on account.** |  |  |

### *Req. 2*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Accounts Receivable** | | | |  | **Service Revenue** | | | |
|  | **3,000** |  |  |  |  | **4,700** |  | **3,000** |  |  |  |  | **4,700** |
| **Bal.** | **3,000** |  |  |  | **Bal.** | **1,700** |  |  |  |  | **Bal.** | **4,700** |

**(10 min.) S 2-9**

|  |  |  |  |
| --- | --- | --- | --- |
| **Old Harbor** | | | |
| **Trial Balance** | | | |
| **December 31, 2012** | | | |
| **ACCOUNT** | **DEBIT** | **CREDIT** | |
|  | ***Millions*** | | |
| **Cash……………………….…...** | **$ 4** | |  |
| **Other assets…………………..** | **10** | |  |
| **Accounts payable……………** |  | | **$ 3** |
| **Other liabilities……………….** |  | | **1** |
| **Stockholders’ equity………..** |  | | **5** |
| **Revenues……………………...** |  | | **19** |
| **Expenses……………………...** | **14** | | **\_\_\_** |
| **Total……………………….……** | **$28** | | **$28** |

**Old Harbor’s net income: $5 million ($19 − $14)**

**(10 min.) S 2-10**

**1. Total assets = $91,000 ($4,500 + $18,000 + $2,500 +**

**$21,000 + $45,000)**

**2. Total liabilities = $47,000 ($25,000 + $22,000)**

**3. Net income = $18,000 ($53,600 − $25,000 − $9,000 − $1,600)**

**(10 min.) S 2-11**

**1. Total debits = $ 86,100 ($126,600 + $4,500 − $45,000)**

**Total credits = $126,600**

**Difference = $ 40,500 ($126,600 − $86,100);**

**$40,500 / 9 = $4,500 (an integer), which suggests either a transposition or a slide.**

**2. Total debits = $189,600 ($126,600 + $81,000 − $18,000)**

**Total credits = $126,600**

**Difference = $ 63,000 ($189,600 − $126,600);**

**$63,000 / 9 = $7,000 (an integer), which suggests either a transposition or a slide.**

**3. Total debits = $108,600 ($126,600 − $18,000)**

**Total credits = $144,600 ($126,600 + $18,000)**

**Difference = $ 36,000 ($144,600 − $108,600)**

**$36,000 / 2 = $18,000 (original amount of accounts receivable).**

**(10 min.) S 2-12**

|  |  |  |  |
| --- | --- | --- | --- |
| **I** | **1. Debit** |  |  |
| **D** | **2. Expense** |  |  |
| **G** | **3. Net income** |  |  |
| **E** | **4. Ledger** |  |  |
| **F** | **5. Posting** |  |  |
| **B** | **6. Normal balance** |  |  |
| **H** | **7. Payable** |  |  |
| **C** | **8. Journal** |  |  |
| **A** | **9. Receivable** |  |  |
| **J** | **10. Owners’ equity** |  |  |
|  |  |  |  |

**(5 min.) S 2-13**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Computer Equipment** | | | |
|  | **100,000** |  |  |  |  | **60,000** |  |  |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | |  | **Common Stock** | | | |
|  |  |  | **60,000** |  |  |  |  | **100,000** |
|  |  |  |  |  |  |  |  |  |

**Total debits = $160,000 ($100,000 + $60,000)**

**Total credits = $160,000 ($100,000 + $60,000)**

**Exercises**

**(10-15 min.) E 2-14A**

**TO: Home Office**

**FROM: Store Manager**

**During the first week, I used the store’s beginning cash to purchase equipment and supplies. I signed a note payable to buy land and a building. After all these transactions, the store’s balance sheet appears as follows:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Casual Wear** | | | |
| **San Francisco Store** | | | |
| **Balance Sheet** | | | |
| **Date** | | | |
| **ASSETS** | | **LIABILITIES** | |
| **Cash** | **$ 25,000\*** | **Note payable\*** | **$216,000** |
| **Supplies** | **15,000** |  | |
| **Equipment** | **58,000** | STOCKHOLDERS’ EQUITY | |
| **Land** | **94,000** | **Common stock** | |
| **Building** | **122,000** | **Total liabilities and** | **98,000** |
| **Total assets** | **$314,000** | **stockholders’ equity** | **$314,000** |

**­\*$94,000 + $122,000 = $216,000**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  |  | | | |
|  | **98,000** |  | **58,000** |  |  |  |  |  |
|  |  |  | **15,000** |  |  |  |  |  |
|  | **25,000** |  |  |  |  |  |  |  |

**(10-15 min.) E 2-15A**

a. No effect on total assets. Increase in cash offsets the decrease in accounts receivable.

**b. No effect (a personal transaction)**

**c. No effect on total assets. Increase in cash offsets the decrease in land.**

**d. Increased assets (cash)**

e. No effect on total assets. Increase in land offsets the decrease in cash.

**f. Increased assets (cash)**

**g. Decreased assets (cash)**

**h. Increased assets (equipment)**

**i. Increased assets (merchandise inventory)**

**j. Decreased assets (cash)**

**(10-20 min.) E 2-16A**

### *Req. 1*

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Analysis of Transactions** | | | | | | | | | | |
| **ASSETS =** | | | | | | **LIABILITIES + STOCKHOLDERS’ EQUITY** | | | | |
| **Date** | Cash + | **Accounts**  **Receivable +** | | **Medical**  **Supplies +** | **Land =** | **Accounts**  **Payable +** | **Note**  **Payable +** | **Common**  **Stock +** | **Retained**  **Earnings** | **Type of Stockholders’**  **Equity Transaction** |
| Aug. 6 | **39,000** |  | |  |  |  |  | **39,000** |  | **Issued stock** |
| **9** | **(29,000)** |  | |  | **29,000** |  |  |  |  |  |
| **12** |  |  | | **1,700** |  | **1,700** |  |  |  |  |
| **15** | **Not a transaction of the business.** | | | | |  |  |  |  |  |
| **15-31** | **3,800** | **3,800** |  | |  |  |  |  | **7,600** | **Service revenue** |
| **15-31** | **(1,300)** |  |  | |  |  |  |  | **(1,300)** | **Salary expense** |
|  | **(700)** |  |  | |  |  |  |  | **(700)** | **Rent expense** |
|  | **(500)** |  |  | |  |  |  |  | **(500)** | **Utilities expense** |
| **31** | **700** |  | **(700)** | |  |  |  |  |  |  |
| **31** | **12,000** |  |  | |  |  | **12,000** |  |  |  |
| **31** | **(800)** |  |  | |  | **(800)** |  |  |  |  |
| **Bal.** | **23,200** | **3,800** | **1,000** | | **29,000** | **900** | **12,000** | **39,000** | **5,100** |  |

**57,000 = 57,000**

**(continued) E 2-16A**

### *Req. 2*

**a. $57,000**

**b. $3,800**

**c. $12,900 ($900 + $12,000)**

**d. $44,100 ($57,000 − $12,900, or $39,000 + $5,100)**

**e. $5,100 (Revenue, $7,600 minus expenses,$2,500 equals net income, $5,100.)**

**(10-15 min.) E 2-17A**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Journal | | | | |
| **DATE** | | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **Aug.** | **6** | **Cash………………………………………..** | **39,000** |  |
|  |  | **Common Stock** |  | **39,000** |
|  |  | **Issued stock to owner.** |  |  |
|  |  |  |  |  |
|  | **9** | **Land** | **29,000** |  |
|  |  | **Cash .** |  | **29,000** |
|  |  | **Purchased land.** |  |  |
|  |  |  |  |  |
|  | **12** | **Medical Supplies** | **1,700** |  |
|  |  | **Accounts Payable** |  | **1,700** |
|  |  | **Purchased supplies on account.** |  |  |
|  |  |  |  |  |
|  | **15** | **Not a transaction of the business.** |  |  |
|  |  |  |  |  |
|  | **15-31** | **Cash** | **3,800** |  |
|  |  | **Accounts Receivable** | **3,800** |  |
|  |  | **Service Revenue** |  | **7,600** |
|  |  | **Performed service for cash and on account.** | |  |
|  | **15-31** | **Salary Expense** | **1,300** |  |
|  |  | **Rent Expense** | **700** |  |
|  |  | **Utilities Expense** | **500** |  |
|  |  | **Cash** |  | **2,500** |
|  |  | **Paid expenses.** |  |  |
|  |  |  |  |  |
|  | **31** | **Cash** | **700** |  |
|  |  | **Medical Supplies** |  | **700** |
|  |  | **Sold supplies.** |  |  |
|  | **31** | **Cash** | **12,000** |  |
|  |  | **Note Payable** |  | **12,000** |
|  |  | **Borrowed money.** |  |  |
|  |  |  |  |  |
|  | **31** | **Accounts Payable** | **800** |  |
|  |  | **Cash** |  | **800** |
|  |  | **Paid on account.** |  |  |

**(10-20 min.) E 2-18A**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Journal | | | | |
| **DATE** | | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **Apr.** | **1** | **Cash** | **19,800** |  |
|  |  | **Common Stock** |  | **19,800** |
|  |  | **Issued common stock to owner.** |  |  |
|  |  |  |  |  |
|  | **2** | **Office Supplies** | **200** |  |
|  |  | **Accounts Payable** |  | **200** |
|  |  | **Purchased office supplies on account.** |  |  |
|  |  |  |  |  |
|  | **4** | **Land** | **14,300** |  |
|  |  | **Cash** |  | **14,300** |
|  |  | **Paid cash for land.** |  |  |
|  |  |  |  |  |
|  | **6** | **Cash** | **2,600** |  |
|  |  | **Service Revenue** |  | **2,600** |
|  |  | **Performed services for cash.** |  |  |
|  |  |  |  |  |
|  | **9** | **Accounts Payable** | **100** |  |
|  |  | **Cash** |  | **100** |
|  |  | **Paid cash on account.** |  |  |
|  |  |  |  |  |
|  | **17** | **Accounts Receivable** | **1,900** |  |
|  |  | **Service Revenue…** |  | **1,900** |
|  |  | **Performed service on account.** |  |  |
|  |  |  |  |  |
|  | **23** | **Cash** | **100** |  |
|  |  | **Accounts Receivable** |  | **100** |
|  |  | **Received cash on account.** |  |  |
|  |  |  |  |  |
|  | **30** | **Salary Expense** | **1,900** |  |
|  |  | **Rent Expense** | **1,300** |  |
|  |  | **Cash** |  | **3,200** |
|  |  | **Paid cash expenses.** |  |  |

**(20-30 min.) E 2-19A**

### *Req. 1*

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Accounts Receivable** | | | |
| **Apr. 1** | **19,800** | **Apr. 4** | **14,300** |  | **Apr. 17** | **1,900** | **Apr. 23** | **100** |
| **6**  **23** | **2,600**  **100** | **9**  **30** | **100**  **3,200** |  | **Bal.** | **1,800** |  |  |
|  |  |  |  |  |
| **Bal.** | **4,900** |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Office Supplies** | | | |  | **Land** | | | |
| **Apr. 2** | **200** |  |  |  | **Apr. 4** | **14,300** |  |  |
| **Bal.** | **200** |  |  |  | **Bal.** | **14,300** |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | |  | **Common Stock** | | | |
| **Apr. 9** | **100** | **Apr. 2** | **200** |  |  |  | **Apr. 1** | **19,800** |
|  |  | **Bal.** | **100** |  |  |  | **Bal.** | **19,800** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Service Revenue** | | | |  | **Salary Expense** | | | |
|  |  | **Apr. 6** | **2,600** |  | **Apr. 30** | **1,900** |  |  |
|  |  | **17** | **1,900** |  | **Bal.** | **1,900** |  |  |
|  |  | **Bal.** | **4.500** |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Rent Expense** | | | |  |  | | | |
| **Apr. 30** | **1.300** |  |  |  |  |  |  |  |
| **Bal.** | **1,300** |  |  |  |  |  |  |  |

**(continued) E 2-19A**

### *Req. 2*

|  |  |  |
| --- | --- | --- |
| **Doherty Tree Cellular, Inc.** | | |
| **Trial Balance** | | |
| **April 30, 2012** | | |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash…………………………...** | **$ 4,900** |  |
| **Accounts receivable………..** | **1,800** |  |
| **Office supplies………………** | **200** |  |
| **Land…………………………...** | **14,300** |  |
| **Accounts payable…………..** |  | **$ 100** |
| **Common stock………………** |  | **19,800** |
| **Service revenue……………..** |  | **4,500** |
| **Salary expense………………** | **1,900** |  |
| **Rent expense………………...** | **1,300** |  |
| **Total…………………………...** | **$24,400** | **$24,400** |

***Req. 3***

**Total assets ($4,900 + $1,800 + 200 + $14,300)…. $21,200**

**Total liabilities…………………………………………. (100)**

**Total stockholders’ equity ($19,800 + $1,300)…… 21,100**

**(10-15 min.) E 2-20A**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Journal | | | | |
| **DATE** | | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
|  | **1.** | **Cash** | **9,800** |  |
|  |  | **Common Stock** |  | **9,800** |
|  |  | **Issued common stock.** |  |  |
|  |  |  |  |  |
|  | **2.** | **Cash** | **7,000** |  |
|  |  | **Note Payable** |  | **7,000** |
|  |  | **Borrowed money; signed note payable.** | |  |
|  |  |  |  |  |
|  | **3.** | **Land** | **32,000** |  |
|  |  | **Cash** |  | **4,000** |
|  |  | **Note Payable** |  | **28,000** |
|  |  | **Purchased land by paying cash and** |  |  |
|  |  | **signing a note payable.** |  |  |
|  |  |  |  |  |
|  | **4.** | **Supplies** | **400** |  |
|  |  | **Accounts Payable** |  | **400** |
|  |  | **Purchased supplies on account.** |  |  |
|  |  |  |  |  |
|  | **5.** | **Cash** | **110** |  |
|  |  | **Supplies** |  | **110** |
|  |  | **Sold supplies for cash.** |  |  |
|  |  |  |  |  |
|  | **6.** | **Equipment** | **5,300** |  |
|  |  | **Cash** |  | **5,300** |
|  |  | **Paid cash for equipment.** |  |  |
|  |  |  |  |  |
|  | **7.** | **Accounts Payable** | **150** |  |
|  |  | **Cash** |  | **150** |
|  |  | **Paid cash on account.** |  |  |

**Cash balance = $7,460 ($9,800 + $7,000 − $4,000 + $110 − $5,300 − $150)**

**Company owes $35,250 ($7,000 + $28,000 + $400 − $150)**

**(10-20 min.) E 2-21A**

### *Req. 1*

|  |  |  |
| --- | --- | --- |
| **Deluxe Patio Service, Inc.** | | |
| **Trial Balance** | | |
| **June 30, 2012** | | |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash** | **$ 9,300** |  |
| **Accounts receivable** | **15,300** |  |
| **Land** | **29,200** |  |
| **Accounts payable** |  | **$ 4,800** |
| **Note payable** |  | **11,500** |
| **Common stock** |  | **8,800** |
| **Retained earnings** |  | **21,600** |
| **Dividends** | **5,500** |  |
| **Service revenue** |  | **22,500** |
| **Salary expense** | **7,800** |  |
| **Utilities expense** | **1,800** |  |
| **Delivery expense** | **300** |  |
| **Total** | **$69,200** | **$69,200** |

### *Req. 2*

|  |  |  |
| --- | --- | --- |
| **Deluxe Patio Service, Inc.** | | |
| **Income Statement** | | |
| **For the Month Ended June 30, 2012** | | |
| **Service revenue** |  | **$22,500** |
| **Salary expense…** | **$7,800** |  |
| **Utilities expense** | **1,800** |  |
| **Delivery expense** | **300** |  |
| **Total expenses** |  | **9,900** |
| **Net income** |  | **$12,600** |

**(15-25 min.) E 2-22A**

|  |  |  |
| --- | --- | --- |
| **Garvey, Inc.** | | |
| **Trial Balance** | | |
| **September 30, 2012** | | |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash** | **$ 4,400\*** |  |
| **Accounts receivable** | **12,600\*** |  |
| **Inventory** | **17,300** |  |
| **Supplies** | **400** |  |
| **Land** | **51,000** |  |
| **Accounts payable** |  | **$12,900\*** |
| **Common stock** |  | **47,300\*** |
| **Sales revenue** |  | **33,900** |
| **Salary expense** | **3,700** |  |
| **Insurance expense** | **2,000\*** |  |
| **Rent expense** | **1,200** |  |
| **Utilities expense** | **\_\_1,500\*** | **\_\_\_\_\_\_\_** |
| **Total** | **$94,100** | **$94,100** |

**\_\_\_\_\_**

**\*Computations:**

**Cash: $4,300 + $100 = $4,400**

**Accounts Receivable: $12,700 − $100 = $12,600**

**Accounts Payable: $11,500 + $1,000 − $100 + $500 = $12,900**

**Common Stock: $47,100 + $200 = $47,300**

**Insurance Expense: $0 + $2,000 = $2,000**

**Utilities Expense: $1,000 + $500 = $1,500**

**(5-15 min.) E 2-23A**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Accounts Receivable** | | | |
| **(a)** | **12,500** | **(b)** | **1,100** |  | **(f)** | **8,000** |  |  |
|  |  | **(d)** | **1,600** |  | **Bal.** | **8,000** |  |  |
|  |  | **(e)** | **500** |  |  |  |  |  |
|  |  | **(g)** | **2,200** |  |  |  |  |  |
| **Bal.** | **7,100** |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Office Supplies** | | | |  | **Office Furniture** | | | |
| **(c)** | **900** |  |  |  | **(a)** | **9,400** |  |  |
| **Bal.** | **900** |  |  |  | **Bal.** | **9,400** |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | |  | **Common Stock** | | | |
| **(e)** | **500** | **(c)** | **900** |  |  |  | **(a)** | **21,900** |
|  |  | **Bal.** | **400** |  |  |  | **Bal.** | **21,900** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Dividends** | | | |  | **Service Revenue** | | | |
| **(g)** | **2,200** |  |  |  |  |  | **(f)** | **8,000** |
| **Bal.** | **2,200** |  |  |  |  |  | **Bal.** | **8,000** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Salary Expense** | | | |  | **Rent Expense** | | | |
| **(d)** | **1,600** |  |  |  | **(b)** | **1,100** |  |  |
| **Bal.** | **1,600** |  |  |  | **Bal.** | **1,100** |  |  |

**(10-20 min.) E 2-24A**

### *Req. 1*

|  |  |  |
| --- | --- | --- |
| **Lynn Dover, Attorney** | | |
| **Trial Balance** | | |
| **May 31, 2012** | | |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash…………………………...** | **$ 7,100** |  |
| **Accounts receivable………..** | **8,000** |  |
| **Office supplies………………** | **900** |  |
| **Office furniture………………** | **9,400** |  |
| **Accounts payable…………..** |  | **$ 400** |
| **Common stock………………** |  | **21,900** |
| **Dividends……………………..** | **2,200** |  |
| **Service revenue……………..** |  | **8,000** |
| **Salary expense………………** | **1,600** |  |
| **Rent expense………………..** | **1,100** |  |
| **Total…………………………...** | **$30,300** | **$30,300** |

### *Req. 2*

The business performed well during May. The result of operations was net income of $5,300, as shown by the income statement accounts:

**Service revenue…………………. $ 8,000**

**Salary expense……….. $1,600**

**Rent expense…………. 1,100**

**Total expenses…………… (2,700)**

**Net income……………………….. $ 5,300**

**(10-15 min.) E 2-25B**

**TO: Home Office**

**FROM: Store Manager**

**During the first week, I used the store’s beginning cash to purchase equipment and supplies. I signed a note payable to buy land and a building. After all these transactions, the store’s balance sheet appears as follows:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **M. Crue** | | | | |
| **San FranciscoStore** | | | | |
| **Balance Sheet** | | | | |
| **Date** | | | | |
| **ASSETS** | | **LIABILITIES** | | |
| **Cash** | **$ 35,000\*** | **Note payable\*** | | **$220,000** |
| **Supplies** | **14,000** |  | | |
| **Equipment** | **55,000** | STOCKHOLDERS’ EQUITY | | |
| **Land** | **95,000** | **Common stock** | **104,000** | |
| **Building** | **125,000** | **Total liabilities and** | |  |
| **Total assets** | **$324,000** | **stockholders’ equity $324,000** | | **$324,000** |

**­\_\_\_\_\_**

**($91,000 + $120,000) = $211,000**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  |  | | | |
|  | **104,000** |  | **55,000** |  |  |  |  |  |
|  |  |  | **14,000** |  |  |  |  |  |
|  | **35,000** |  |  |  |  |  |  |  |

**(10-15 min.) E 2-26B**

**a**. **Increased assets (cash)**

b. No effect on total assets. Increase in equipment offsets the decrease in cash.

c. Decreased assets (cash)

**d.** **No effect (a personal transaction)**

**e. Increased assets (land)**

**f. Increased assets (cash)**

g. No effect on total assets. Increase in notes receivable offsets the decrease in land.

**h.** **Increased assets (accounts receivable)**

**i. Increased assets (supplies)**

**j. Decreased assets (cash)**

**(10-20 min.) E 2-27B**

### *Req. 1*

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Analysis of Transactions** | | | | | | | | | | |
| **ASSETS =** | | | | | | **LIABILITIES + STOCKHOLDERS’ EQUITY** | | | | |
| **Date** | Cash + | **Accounts**  **Receivable +** | | **Medical**  **Supplies +** | **Land =** | **Accounts**  **Payable +** | **Note**  **Payable +** | **Common**  **Stock +** | **Retained**  **Earnings** | **Type of Stockholders’**  **Equity Transaction** |
| July 6 | **41,000** |  | |  |  |  |  | **41,000** |  | **Issued stock** |
| **9** | **(27,000)** |  | |  | **27,000** |  |  |  |  |  |
| **12** |  |  | | **2,100** |  | **2,100** |  |  |  |  |
| **15** | **Not a transaction of the business.** | | | | |  |  |  |  |  |
| **15-31** | **4,050** | **4,050** |  | |  |  |  |  | **8,100** | **Service revenue** |
| **15-31** | **(1,500)** |  |  | |  |  |  |  | **(1,500)** | **Salary expense** |
|  | **(1,100)** |  |  | |  |  |  |  | **(1,100)** | **Rent expense** |
|  | **(1,200)** |  |  | |  |  |  |  | **(1,200)** | **Utilities expense** |
| **31** | **800** |  | **(800)** | |  |  |  |  |  |  |
| **31** | **19,000** |  |  | |  |  | **19,000** |  |  |  |
| **31** | **(1,500)** |  |  | |  | **(1,500)** |  |  |  |  |
| **Bal.** | **32,550** | **4,050** | **1,300** | | **27,000** | **600** | **19,000** | **41,000** | **4,300** |  |

**64,900 64,900**

**(continued)** **E2-27B**

### *Req. 2*

**a. $64,900**

**b. $4,050**

**c. $19,600 ($600 + $19,000)**

**d. $45,300 ($64,900 − $19,600, or $41,000 + $4,300)**

**e. $4,300 (Revenue, $8,100 minus expenses,$3,800, equals net income, $4,300.)**

**(10-15 min.) E 2-28B**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Journal | | | | | |
| **DATE** | | **ACCOUNT TITLES AND EXPLANATION** | | **DEBIT** | **CREDIT** |
|  |  |  | |  |  |
| **Mar.** | **6** | **Cash** | | **41,000** |  |
|  |  | **Common Stock** | |  | **41,000** |
|  |  | **Issued stock to owner.** | |  |  |
|  |  |  | |  |  |
|  | **9** | **Land** | | **27,000** |  |
|  |  | **Cash** | |  | **27,000** |
|  |  | **Purchased land.** | |  |  |
|  |  |  | |  |  |
|  | **12** | **Medical Supplies** | | **2,100** |  |
|  |  | **Accounts Payable** | |  | **2,100** |
|  |  | **Purchased supplies on account.** | |  |  |
|  |  |  | |  |  |
|  | **15** | **Not a transaction of the business.** | |  |  |
|  |  |  | |  |  |
|  | **15-31** | | **Cash** | **4,050** |  |
|  |  | **Accounts Receivable** | | **4,050** |  |
|  |  | **Service Revenue** | |  | **8,100** |
|  |  | **Performed service for cash and on account.** | | |  |
|  |  |  | |  |  |
|  | **15-31** | **Salary Expense** | | **1,500** |  |
|  |  | **Rent Expense** | | **1,100** |  |
|  |  | **Utilities Expense** | | **1,200** |  |
|  |  | **Cash** | |  | **3,800** |
|  |  | **Paid expenses.** | |  |  |
|  |  |  | |  |  |
|  | **31** | **Cash** | | **800** |  |
|  |  | **Medical Supplies** | |  | **800** |
|  |  | **Sold supplies.** | |  |  |
|  | | | | | |
|  | **31** | **Cash** | | **19,000** |  |
|  |  | **Note Payable** | |  | **19,000** |
|  |  | **Borrowed money.** | |  |  |
|  |  |  | |  |  |
|  | **31** | **Accounts Payable** | | **1,500** |  |
|  |  | **Cash** | |  | **1,500** |
|  |  | **Paid on account.** | |  |  |

**(10-20 min.) E 2-29B**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Journal | | | | |
| **DATE** | | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **Sept.** | **1** | **Cash** | **19,900** |  |
|  |  | **Common Stock** |  | **19,900** |
|  |  | **Issued common stock to owner.** |  |  |
|  |  |  |  |  |
|  | **2** | **Office Supplies** | **400** |  |
|  |  | **Accounts Payable** |  | **400** |
|  |  | **Purchased office supplies on account.** |  |  |
|  |  |  |  |  |
|  | **4** | **Land** | **14,000** |  |
|  |  | **Cash** |  | **14,000** |
|  |  | **Paid cash for land.** |  |  |
|  |  |  |  |  |
|  | **6** | **Cash** | **2,900** |  |
|  |  | **Service Revenue** |  | **2,900** |
|  |  | **Performed services for cash.** |  |  |
|  |  |  |  |  |
|  | **9** | **Accounts Payable** | **300** |  |
|  |  | **Cash** |  | **300** |
|  |  | **Paid cash on account.** |  |  |
|  |  |  |  |  |
|  | **17** | **Accounts Receivable** | **1,200** |  |
|  |  | **Service Revenue** |  | **1,200** |
|  |  | **Performed service on account.** |  |  |
|  |  |  |  |  |
|  | **23** | **Cash** | **100** |  |
|  |  | **Accounts Receivable** |  | **100** |
|  |  | **Received cash on account.** |  |  |
|  |  |  |  |  |
|  | **30** | **Salary Expense** | **1,200** |  |
|  |  | **Rent Expense** | **800** |  |
|  |  | **Cash** |  | **2,000** |
|  |  | **Paid cash expenses.** |  |  |

**(20-30 min.) E 2-30B**

### *Req. 1*

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Accounts Receivable** | | | |
| **Sept. 1** | **19,900** | **Sept. 4** | **14,600** |  | **Sept. 17** | **1,200** | **Sept. 23** | **100** |
| **6**  **23** | **2,900**  **100** | **9**  **30** | **300**  **2,000** |  | **Bal.** | **1,100** |  |  |
|  |  |  |  |  |
| **Bal.** | **6,600** |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Office Supplies** | | | |  | **Land** | | | |
| **Sept. 2** | **400** |  |  |  | **Sept. 4** | **14,000** |  |  |
| **Bal.** | **400** |  |  |  | **Bal.** | **14,000** |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | |  | **Common Stock** | | | |
| **Sept. 9** | **300** | **Sept. 2** | **400** |  |  |  | **Sept. 1** | **19,900** |
|  |  | **Bal.** | **100** |  |  |  | **Bal.** | **19,900** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Service Revenue** | | | |  | **Salary Expense** | | | |
|  |  | **Sept. 6** | **2,900** |  | **Sept. 30** | **1,200** |  |  |
|  |  | **17** | **1,200** |  | **Bal.** | **1,200** |  |  |
|  |  | **Bal.** | **4,100** |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Rent Expense** | | | |  |  | | | |
| **Sept. 30** | **800** |  |  |  |  |  |  |  |
| **Bal.** | **800** |  |  |  |  |  |  |  |

**(continued) E 2-30B**

### *Req. 2*

|  |  |  |
| --- | --- | --- |
| **DoubleTree Cellular, Inc.** | | |
| **Trial Balance** | | |
| **September 30, 2012** | | |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash…………………………...** | **$ 6,600** |  |
| **Accounts receivable………..** | **1,100** |  |
| **Office supplies………………** | **400** |  |
| **Land…………………………...** | **14,000** |  |
| **Accounts payable…………..** |  | **$ 100** |
| **Common stock………………** |  | **19,900** |
| **Service revenue……………..** |  | **4,100** |
| **Salary expense………………** | **1,200** |  |
| **Rent expense………………...** | **800** |  |
| **Total…………………………...** | **$24,100** | **$24,100** |

***Req. 3***

**Total assets ($6,600 + $1,100 + 400 + $14,000)….. $22,100**

**Total liabilities…………………………………………. (100)**

**Total stockholders’ equity ($19,900 + $2,100)…… $22,000**

**(10-15 min.) E 2-31B**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Journal | | | | |
| **DATE** | | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
|  | **1.** | **Cash** | **10,100** |  |
|  |  | **Common Stock** |  | **10,100** |
|  |  | **Issued common stock.** |  |  |
|  |  |  |  |  |
|  | **2.** | **Cash** | **7,300** |  |
|  |  | **Note Payable** |  | **7,300** |
|  |  | **Borrowed money; signed note payable.** | |  |
|  |  |  |  |  |
|  | **3.** | **Land** | **35,000** |  |
|  |  | **Cash** |  | **7,000** |
|  |  | **Note Payable** |  | **28,000** |
|  |  | **Purchased land by paying cash** |  |  |
|  |  | **and signing a note payable.** |  |  |
|  |  |  |  |  |
|  | **4.** | **Supplies** | **800** |  |
|  |  | **Accounts Payable** |  | **800** |
|  |  | **Purchased supplies on account.** |  |  |
|  |  |  |  |  |
|  | **5.** | **Cash…** | **130** |  |
|  |  | **Supplies** |  | **130** |
|  |  | **Sold supplies for cash.** |  |  |
|  |  |  |  |  |
|  | **6.** | **Equipment** | **5,700** |  |
|  |  | **Cash** |  | **5,700** |
|  |  | **Paid cash for equipment.** |  |  |
|  |  |  |  |  |
|  | **7.** | **Accounts Payable** | **140** |  |
|  |  | **Cash** |  | **140** |
|  |  | **Paid cash on account.** |  |  |

**Cash balance = $4,690 ($10,100 + $7,300 − $7,000 + $130 − $5,700 − $140)**

**Company owes $35,960 ($7,300 + $28,000 + $800 − $140)**

**(10-20 min.) E 2-32B**

### *Req. 1*

|  |  |  |
| --- | --- | --- |
| **Custom Pool Service, Inc.** | | |
| **Trial Balance** | | |
| **June 30, 2012** | | |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash** | **9,200** |  |
| **Accounts receivable** | **15,200** |  |
| **Land** | **29,600** |  |
| **Accounts payable** |  | **$ 4,100** |
| **Note payable** |  | **11,500** |
| **Common stock** |  | **8,300** |
| **Retained earnings** |  | **24,700** |
| **Dividends** | **5,800** |  |
| **Service revenue** |  | **22,300** |
| **Salary expense** | **8,500** |  |
| **Utilities expense** | **1,700** |  |
| **Delivery expense** | **900** |  |
| **Total** | **$70,900** | **$70,900** |

### *Req. 2*

|  |  |  |
| --- | --- | --- |
| **Custom Pool Service, Inc.** | | |
| **Income Statement** | | |
| **For the Month Ended June 30, 2012** | | |
| **Service revenue** |  | **$22,300** |
| **Salary expense** | **$8,500** |  |
| **Utilities expense** | **1,700** |  |
| **Delivery expense** | **900** |  |
| **Total expenses** |  | **11,100** |
| **Net income** |  | **$11,200** |

**(15-25 min.) E 2-33B**

|  |  |  |
| --- | --- | --- |
| **Doyle, Inc.** | | |
| **Trial Balance** | | |
| **June 30, 2012** | | |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash…** | **$ 5,200\*** |  |
| **Accounts receivable** | **12,600\*** |  |
| **Inventory** | **17,100** |  |
| **Supplies** | **800** |  |
| **Land** | **58,000** |  |
| **Accounts payable** |  | **$15,500\*** |
| **Common stock** |  | **47,600\*** |
| **Sales revenue** |  | **38,500** |
| **Salary expense** | **3,400** |  |
| **Insurance expense** | **1,900\*** |  |
| **Rent expense** | **1,100** |  |
| **Utilities expense** | **1,500\*** | **\_\_\_\_\_\_\_** |
| **Total** | **$101,600** | **$101,600** |

**\_\_\_\_\_**

**\*Explanations:**

**Cash: $4,600 + $600 = $5,200**

**Accounts Receivable: $13,200 − $600 = $12,600**

**Accounts Payable: $12,400 + $3,000 − $300 + $400 = $15,500**

**Common Stock: $47,400 + $200 = $47,600**

**Insurance Expense: $0 + $3,400 = $3,400**

**Utilities Expense: $1,100 + $400 = $1,500**

**(5-15 min.) E 2-34B**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Accounts Receivable** | | | |
| **(a)** | **13,000** | **(b)** | **1,800** |  | **(f)** | **8,700** |  |  |
|  |  | **(d)** | **1,800** |  | **Bal.** | **8,700** |  |  |
|  |  | **(e)** | **900** |  |  |  |  |  |
|  |  | **(g)** | **2,500** |  |  |  |  |  |
| **Bal.** | **6,000** |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Office Supplies** | | | |  | **Office Furniture** | | | |
| **(c)** | **1,300** |  |  |  | **(a)** | **8,900** |  |  |
| **Bal.** | **1,300** |  |  |  | **Bal.** | **8,900** |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | |  | **Common Stock** | | | |
| **(e)** | **900** | **(c)** | **1,300** |  |  |  | **(a)** | **21,900** |
|  |  | **Bal.** | **400** |  |  |  | **Bal.** | **21,900** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Dividends** | | | |  | **Service Revenue** | | | |
| **(g)** | **2,500** |  |  |  |  |  | **(f)** | **8,700** |
| **Bal.** | **2,500** |  |  |  |  |  | **Bal.** | **8,700** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Salary Expense** | | | |  | **Rent Expense** | | | |
| **(d)** | **1,800** |  |  |  | **(b)** | **1,800** |  |  |
| **Bal.** | **1,800** |  |  |  | **Bal.** | **1,800** |  |  |

**(10-20 min.) E 2-35B**

### *Req. 1*

|  |  |  |
| --- | --- | --- |
| **Lisa Oxford, Attorney** | | |
| **Trial Balance** | | |
| **March 31, 2012** | | |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash** | **$ 6,000** |  |
| **Accounts receivable** | **8,700** |  |
| **Office supplies** | **1,300** |  |
| **Office furniture** | **8,900** |  |
| **Accounts payable** |  | **$ 400** |
| **Common stock** |  | **21,900** |
| **Dividends** | **2,500** |  |
| **Service revenue** |  | **8,700** |
| **Salary expense** | **1,800** |  |
| **Rent expense** | **1,800** |  |
| **Total** | **$31,000** | **$31,000** |

### *Req. 2*

The business performed well during March. The result of operations was net income of $5,100, as shown by the income statement accounts:

**Service revenue…………………. $ 8,700**

**Salary expense $1,800**

**Rent expense 1,800**

**Total expenses………………….. (3,600)**

**Net income……………………….. $ 5,100**

**Serial Exercise**

**(20-30 min.) E 2-36**

### *Reqs. 1 and 3*

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Accounts Receivable** | | | |
| **Jan. 2** | **11,000** | **Jan. 2** | **700** |  | **Jan. 18** | **1,500** |  |  |
| **9** | **1,000** | **3** | **3,900** |  | **Bal.** | **1,500** |  |  |
|  |  | **12** | **200** |  |  |  |  |  |
| **Bal.** | **7,200** |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Supplies** | | | |  | **Equipment** | | | |
| **Jan. 5** | **400** |  |  |  | **Jan. 3** | **3,900** |  |  |
| **Bal.** | **400** |  |  |  | **Bal.** | **3,900** |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Furniture** | | | |  | **Accounts Payable** | | | |
| **Jan. 4** | **4,700** |  |  |  |  |  | **Jan. 4** | **4,700** |
| **Bal.** | **4,700** |  |  |  |  |  | **5** | **400** |
|  |  |  |  |  |  |  | **Bal.** | **5,100** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Common Stock** | | | |  | **Service Revenue** | | | |
|  |  | **Jan. 2** | **11,000** |  |  |  | **Jan. 9** | **1,000** |
|  |  | **Bal.** | **11,000** |  |  |  | **18** | **1,500** |
|  |  |  |  |  |  |  | **Bal.** | **2,500** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Rent Expense** | | | |  | **Utilities Expense** | | | |
| **Jan. 2** | **700** |  |  |  | **Jan. 12** | **200** |  |  |
| **Bal.** | **700** |  |  |  | **Bal.** | **200** |  |  |
|  |  |  |  |  |  |  |  |  |

|  |
| --- |
|  |

**(continued) E 2-36**

### *Req. 2*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Journal | | | | |
| **DATE** | | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **Jan.** | **2** | **Cash** | **11,000** |  |
|  |  | **Common Stock** |  | **11,000** |
|  |  |  |  |  |
|  | **2** | **Rent Expense** | **700** |  |
|  |  | **Cash** |  | **700** |
|  |  |  |  |  |
|  | **3** | **Equipment** | **3,900** |  |
|  |  | **Cash…** |  | **3,900** |
|  |  |  |  |  |
|  | **4** | **Furniture…** | **4,700** |  |
|  |  | **Accounts Payable** |  | **4,700** |
|  |  |  |  |  |
|  | **5** | **Supplies** | **400** |  |
|  |  | **Accounts Payable** |  | **400** |
|  |  |  |  |  |
|  | **9** | **Cash** | **1,000** |  |
|  |  | **Service Revenue** |  | **1,000** |
|  |  |  |  |  |
|  | **12** | **Utilities Expense** | **200** |  |
|  |  | **Cash** |  | **200** |
|  |  |  |  |  |
|  | **18** | **Accounts Receivable** | **1,500** |  |
|  |  | **Service Revenue** |  | **1,500** |

**(continued) E 2-36**

### *Req. 3*

|  |  |  |
| --- | --- | --- |
| **Steve Ruiz, Certified Public Accountant, P.C.** | | |
| **Trial Balance** | | |
| **January 18, 2012** | | |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash** | **$ 7,200** |  |
| **Accounts receivable** | **1,500** |  |
| **Supplies** | **400** |  |
| **Equipment** | **3,900** |  |
| **Furniture** | **4,700** |  |
| **Accounts payable** |  | **$ 5,100** |
| **Common stock** |  | **11,000** |
| **Dividends** | **—** |  |
| **Service revenue** |  | **2,500** |
| **Rent expense** | **700** |  |
| **Utilities expense** | **200** |  |
| **Salary expense** | **—** |  |
| **Total** | **$18,600** | **$18,600** |

**Quiz**

|  |  |  |  |
| --- | --- | --- | --- |
| **Q2-37** | **d** |  |  |
| **Q2-38** | **d** |  |  |
| **Q2-39** | **d** |  |  |
| **Q2-40** | **d** |  |  |
| **Q2-41** | **d** |  |  |
| **Q2-42** | **c** |  |  |
| **Q2-43** | **a** |  |  |
| **Q2-44** | **c** |  |  |
| **Q2-45** | **c** |  |  |
| **Q2-46** | **b** |  |  |
| **Q2-47** | **d** |  |  |
| **Q2-48** | **d** |  |  |
| **Q2-49** | **a** |  |  |
| **Q2-50** | **d** |  |  |
| **Q2-51** | **c** |  |  |
| **Q2-52** | **c** |  |  |
| **Q2-53** | **d** |  |  |
| **Q2-54** | **d** |  |  |
| **Q2-55** | **a** |  |  |
| **Q2-56** | **d** | **($45,000 + $22,000 + $11,000) = $78,000** | |

**Problems**

**(15-30 min.) P 2-57A**

**Dear Abby,**

This trial balance lists the accounts of the company, along with their balances at December 31, 2012. The trial balance provides the data for computing total assets, total liabilities, and net income or net loss.

**Dorman Specialties**

**a. Total assets = $407,000 ($20,000 + $45,000 + $3,000 + $235,000**

**+ $104,000)**

**b. Total liabilities = $184,000 ($102,000 + $82,000)**

**c. Net income = $24,000 ($180,000 − $59,000 − $12,000 − $76,000**

**− $9,000)**

**Student responses may vary.**

**(45-60 min.) P 2-58A**

### *Req. 1*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Analysis of Transactions** | | | | | | | | | | | | | | | | | |
| **ASSETS** | | | | | | | | **= LIABILITIES + STOCKHOLDERS’ EQUITY** | | | | | | | | | |
|  | **Cash +** | | **Accounts Receivable +** | | **Supplies +** | | **Land =** | | | **Accounts**  **Payable +** | | **Common**  **Stock +** | | **Retained**  **Earnings** | | **Type of Stockholders’**  **Equity Transaction** | |
| **Bal.** | **1,400** | **1,300** | |  | | **11,600** | | | **8,000** | | **3,500** | | **3,500** | |  | |
| **a)** | **9,000** |  | |  | |  | | |  | | **9,000** | |  | | **Issued stock** | |
| **b)** | **6,800** |  | |  | |  | | |  | |  | | **6,800** | | **Service revenue** | |
| **c)** | **(4,700)** |  | |  | |  | | | **(4,700)** | |  | |  | |  | |
| **d)** |  |  | | **1,200** | |  | | | **1,200** | |  | |  | |  | |
| **e)** | **400** | **(400)** | |  | |  | | |  | |  | |  | |  | |
| **f)** |  | **2,400** | |  | |  | | |  | |  | | **2,400** | | **Service revenue** | |
| **g)** | **(1,400)** |  | |  | |  | | |  | |  | | **(1,400)** | | **Rent expense** | |
|  | **(900)** |  | |  | |  | | |  | |  | | **(900)** | | **Advertising expense** | |
| **h)** | **(1,700)** | **\_\_\_\_** | | **\_\_\_\_** | |  | | |  | |  | | **(1,700)** | | **Dividends** | |
| **Bal.** | **8,900** | **3,300** | | **1,200** | | **11,600** | | | **4,500** | | **12,500** | | **8,000** | |  | |

**$25,000 $25,000**

**(continued) P 2-58A**

### *Req. 2*

|  |  |  |
| --- | --- | --- |
| **Mason Resources, Inc.** | | |
| **Income Statement** | | |
| **Month Ended June 30, 2012** | | |
| **Revenues:** |  |  |
| **Service revenue ($6,800 + $2,400)...** |  | **$9,200** |
| **Expenses:** |  |  |
| **Rent expense…………………………** | **$1,400** |  |
| **Advertising expense………………...** | **900** |  |
| **Total expenses……………………….** |  | **2,300** |
| **Net income…………………………………….** |  | **$6,900** |

### *Req. 3*

|  |  |
| --- | --- |
| **Martin Resources, Inc.** | |
| **Statement of Retained Earnings** | |
| **Month Ended June 30, 2012** | |
| **Retained earnings, Jun3 1, 2012……..............** | **$ 2,800** |
| **Add: Net income………………………………..** | **6,900** |
|  | **9,700** |
| **Less: Dividends………………………………….** | **(1,700)** |
| **Retained earnings, June 30, 2012……………..** | **$ 8,000** |

***Req. 4***

|  |  |  |  |
| --- | --- | --- | --- |
| **Martin Resources, Inc.** | | | |
| **Balance Sheet** | | | |
| **June 30, 2012** | | | |
| **ASSETS** | | **LIABILITIES** |  |
| **Cash……………………….** | **$8,900** | **Accounts payable…………** | **$ 4,500** |
| **Accounts receivable……** | **3,300** | STOCKHOLDERS’ |  |
| **Supplies…………………..** | **1,200** | **EQUITY** |  |
| **Land……………………….** | **11,600** | **Common stock…………….** | **12,500** |
|  |  | **Retained earnings…………** | **8,000** |
|  |  | **Total stockholders’ equity** | **20,500** |
|  |  | **Total liabilities and** |  |
| **Total assets………………** | **$25,000** | **stockholders' equity…..** | **$25,000** |

**(30-40 min.) P 2-59A**

### *Req. 1*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Journal | | | | |
|  | | **ACCOUNT TITLES** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
|  | **a.** | **Cash** | **9,000** |  |
|  |  | **Common Stock** |  | **9,000** |
|  |  |  |  |  |
|  | **b.** | **Cash** | **6,800** |  |
|  |  | **Service Revenue** |  | **6,800** |
|  |  |  |  |  |
|  | **c.** | **Accounts Payable…** | **4,700** |  |
|  |  | **Cash** |  | **4,700** |
|  |  |  |  |  |
|  | **d.** | **Supplies** | **1,200** |  |
|  |  | **Accounts Payable** |  | **1,200** |
|  |  |  |  |  |
|  | **e.** | **Cash…** | **400** |  |
|  |  | **Accounts Receivable** |  | **400** |
|  |  |  |  |  |
|  | **f.** | **Accounts Receivable** | **2,400** |  |
|  |  | **Service Revenue…** |  | **2,400** |
|  |  |  |  |  |
|  | **g.** | **Rent Expense** | **1,400** |  |
|  |  | **Advertising Expense** | **900** |  |
|  |  | **Cash** |  | **2,300** |
|  |  |  |  |  |
|  | **h.** | **Dividends…** | **1,700** |  |
|  |  | **Cash** |  | **1,700** |

**(continued) P 2-59A**

### *Reqs. 2 and 3*

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | |  | **Accounts**  **Receivable** | |  | **Supplies** | |  | **Land** | |
| **1,400** | **4,700** |  | **1,300** | **400** |  | **1,200** |  |  | **11,600** |  |
| **9,00** | **2,300** |  | **2,400** |  |  |  |  |  |  |  |
| **6,800** | **1,700** |  | **3,300** |  |  | **1,200** |  |  | **11,600** |  |
| **400** |  |  |  |  |  |  |  |  |  |  |
| **8,900** |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts**  **Payable** | |  | **Common Stock** | |  | **Retained**  **Earnings** | |  | **Dividends** | |
| **4,700** | **8,000** |  |  | **3,500** |  |  | **2,800** |  | **1,700** |  |
|  | **1,200** |  |  | **9,000** |  |  |  |  |  |  |
|  | **4,500** |  |  | **12,500** |  |  | **2,800** |  | **1,700** |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Service**  **Revenue** | |  | **Rent Expense** | |  | **Advertising**  **Expense** | |  |  | |
|  | **6,800** |  | **1,400** |  |  | **900** |  |  |  |  |
|  | **2,400** |  |  |  |  |  |  |  |  |  |
|  | **9,200** |  | **1,400** |  |  | **900** |  |  |  |  |

The balances of all the accounts Cash through Common Stock agree with the ending balances obtained in Problem 2-58A.

**(40-50 min.) P 2-60A**

### *Req. 1*

### *Classification of Transactions*

**Nov. 4 b**

**5 c**

**6 c**

**7 c**

**10 b**

**11 b**

**12 a**

**18 c**

**21 c**

**25 c**

**30 c**

**(continued) P 2-60A**

***Req. 2***

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Analysis of Transactions** | | | | | | | | | |
| **ASSETS** | | | | | **= LIABILITIES + STOCKHOLDERS’ EQUITY** | | | | |
| **Date** | **Cash +** | **Accounts**  **Receivable+** | **Supplies +** | **Office**  **Equipment =** | | **Accounts**  **Payable +** | **Common**  **Stock +** | **Retained**  **Earnings** | **Type of Stockholders’**  **Equity Transaction** |
| **Nov. 4\*** |  |  |  |  | |  |  |  |  |
| **5** | **58,000** |  |  |  | |  | **58,000** |  | **Issued stock** |
| **6** | **(100)** |  | **100** |  | |  |  |  |  |
| **7** | **(10,000)** |  |  | **16,500** | | **6,500** |  |  |  |
| **10\*** |  |  |  |  | |  |  |  |  |
| **11\*** |  |  |  |  | |  |  |  |  |
| **12\*** |  |  |  |  | |  |  |  |  |
| **18** |  | **5,500** |  |  | |  |  | **5,500** | **Service revenue** |
| **21** | **(3,250)** |  |  |  | | **(3,250)** |  |  |  |
| **25** | **(1,400)** |  |  |  | |  |  | **(1,400)** | **Rent expense** |
| **30** | **(2,400)** |  | **\_\_\_** |  | |  |  | **(2,400)** | **Dividends** |
| **Bal.** | **40,850** | **5,500** | **100** | **16,500** | | **3,250** | **58,000** | **1,700** |  |

**$62,950 $62,950**

**\*Not a transaction of the business.**

**(continued) P 2-60A**

### *Req. 3*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Journal | | | | |
| **DATE** | | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **Nov.** | **5** | **Cash** | **58,000** |  |
|  |  | **Common Stock** |  | **58,000** |
|  |  | **Issued stock to owner.** |  |  |
|  |  |  |  |  |
|  | **6** | **Supplies** | **100** |  |
|  |  | **Cash** |  | **100** |
|  |  | **Purchased supplies.** |  |  |
|  |  |  |  |  |
|  | **7** | **Office Equipment** | **16,500** |  |
|  |  | **Cash** |  | **10,000** |
|  |  | **Accounts Payable** |  | **6,500** |
|  |  | **Purchased equipment.** |  |  |
|  |  |  |  |  |
|  | **18** | **Accounts Receivable** | **5,500** |  |
|  |  | **Service Revenue** |  | **5,500** |
|  |  | **Performed service on account.** |  |  |
|  |  |  |  |  |
|  | **21** | **Accounts Payable** | **3,250** |  |
|  |  | **Cash** |  | **3,250** |
|  |  | **Paid on account.** |  |  |
|  |  |  |  |  |
|  | **25** | **Rent Expense** | **1,400** |  |
|  |  | **Cash** |  | **1,400** |
|  |  | **Paid rent.** |  |  |
|  |  |  |  |  |
|  | **30** | **Dividends** | **2,400** |  |
|  |  | **Cash** |  | **2,400** |
|  |  | **Paid dividend.** |  |  |

**(15-20 min.) P 2-61A**

***Req. 1***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Journal | | | | |
| **DATE** | | **ACCOUNT TITLES** | **DEBIT** | **CREDIT** |
| **Dec.** | **1** | **Cash** | **23,000** |  |
|  |  | **Common Stock…** |  | **23,000** |
|  |  |  |  |  |
|  | **5** | **Rent Expense** | **1,900** |  |
|  |  | **Cash…** |  | **1,900** |
|  |  |  |  |  |
|  | **9** | **Land…** | **35,000** |  |
|  |  | **Cash** |  | **7,000** |
|  |  | **Notes Payable** |  | **28,000** |
|  |  |  |  |  |
|  | **10** | **Supplies** | **1,100** |  |
|  |  | **Accounts Payable** |  | **1,100** |
|  |  |  |  |  |
|  | **19** | **Accounts Payable** | **700** |  |
|  |  | **Cash** |  | **700** |
|  |  |  |  |  |
|  | **22** | **Cash** | **19,000** |  |
|  |  | **Notes Payable** |  | **19,000** |
|  |  |  |  |  |
|  | **31** | **Cash** | **14,000** |  |
|  |  | **Accounts Receivable** | **6,000** |  |
|  |  | **Service Revenue** |  | **20,000** |
|  |  |  |  |  |
|  | **31** | **Salary Expense** | **2,500** |  |
|  |  | **Advertising Expense…** | **1,300** |  |
|  |  | **Utilities Expense** | **1,700** |  |
|  |  | **Cash** |  | **5,500** |
|  |  |  |  |  |
|  | **31** | **Dividends** | **2,500** |  |
|  |  | **Cash** |  | **2,500** |

**(continued) P 2-61A**

### *Req. 2*

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Cash** | |  |
|  | **23,000** |  | **1,900** |
|  | **19,000** |  | **7,000** |
|  | **14,000** |  | **700** |
|  |  |  | **5,500** |
|  |  |  | **2,500** |
|  | **38,400** |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Accounts Payable** | |  |
|  | **700** |  | **1,100** |
|  |  |  | **400** |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Notes Payable** | |  |
|  |  |  | **28,000**  **19,000** |
|  |  |  | **47,000** |

***Req. 3***

**Cash: $38,400**

**Total amount owed: $47,400 ($400 + $47,000)**

**(50-60 min.) P 2-62A**

***Req. 1***

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Journal | | | | | | | | | |
| **DATE** | | | **ACCOUNT TITLES** | | | **DEBIT** | | **CREDIT** | |
|  | |  |  | | |  | |  | |
| **Mar.** | | **2** | **Cash** | | | **37,000** | |  | |
|  | |  | **Common Stock** | | |  | | **37,000** | |
|  | |  |  | | |  | |  | |
|  | | **3** | **Supplies…** | | | **300** | |  | |
|  | |  | **Equipment…** | | | **3,000** | |  | |
|  | |  | **Accounts Payable** | | |  | | **3,300** | |
|  | |  |  | | |  | |  | |
|  | | **4** | **Cash** | | | **1,500** | |  | |
|  | |  | **Service Revenue** | | |  | | **1,500** | |
|  | |  |  | | |  | |  | |
|  | | **7** | **Land** | | | **28,000** | |  | |
|  | |  | **Cash** | | |  | | **28,000** | |
|  | |  |  | | |  | |  | |
|  | | **11** | **Accounts Receivable** | | | **1,100** | |  | |
|  | |  | **Service Revenue** | | |  | | **1,100** | |
|  | |  |  | | |  | |  | |
|  | | **16** | **Accounts Payable** | | | **3,000** | |  | |
|  | |  | **Cash** | | |  | | **3,000** | |
|  | |  |  | | |  | |  | |
|  | | **17** | **Utilities Expense** | | | **110** | |  | |
|  | |  | **Cash** | | |  | | **110** | |
|  | |  |  | | |  | |  | |
|  | | **18** | **Cash…** | | | **550** | |  | |
|  | |  | **Accounts Receivable** | | |  | | **550** | |
|  | |  |  | | |  | |  | |
|  | | **22** | | | **Utilities Expense…** | **130** | |  | |
|  | |  | | | **Cash…** |  | | **130** | |
|  | |  |  | | |  | |  | |  |
|  | | **29** | | | **Cash………** | **1,000** | |  | |
|  | |  | | | **Service Revenue** |  | | **1,000** | |
|  | |  | | |  |  | |  | |
|  | | **31** | | | **Salary Expense** | **1,900** | |  | |
|  | |  | | | **Cash** |  | | **1,900** | |
|  | |  | | |  |  | |  | |
|  | | **31** | | | **Dividends** | **2,200** | |  | |
|  | |  | | | **Cash** |  | | **2,200** | |

**(continued) P 2-62A**

***Req. 2***

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Accounts Receivable** | | | |
| **Mar. 2** | **37,000** | **Mar. 7** | **28,000** |  | **Mar. 11** | **1,100** | **Mar. 18** | **550** |
| **4** | **1,500** | **16** | **3,000** |  | **Bal.** | **550** |  |  |
| **18** | **550** | **17** | **110** |  |  |  |  |  |
| **29** | **1,000** | **22** | **130** |  |  |  |  |  |
|  |  | **31** | **1,900** |  | **Supplies** | | | |
|  |  | **31** | **2,200** |  | **Mar. 3** | **300** |  |  |
| **Bal.** | **4,710** |  |  |  | **Bal.** | **300** |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Equipment** | | | |  | **Land** | | | |
| **Mar. 3** | **3,000** |  |  |  | **Mar. 7** | **28,000** |  |  |
| **Bal.** | **3,000** |  |  |  | **Bal.** | **28,000** |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | |  | **Common Stock** | | | |
| **Mar. 16** | **3,000** | **Mar. 3** | **3,300** |  |  |  | **Mar. 2** | **37,000** |
|  |  | **Bal.** | **300** |  |  |  | **Bal.** | **37,000** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Dividends** | | | |  | **Service Revenue** | | | |
| **Mar. 31** | **2,200** |  |  |  |  |  | **Mar. 4** | **1,500** |
|  | **2,200** |  |  |  |  |  | **11** | **1,100** |
|  |  |  |  |  |  |  | **29** | **1,000** |
|  |  |  |  |  |  |  | **Bal.** | **3,600** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Salary Expense** | | | |  | **Utilities Expense** | | | |
| **Mar. 31** | **1,900** |  |  |  | **Mar. 17** | **110** |  |  |
| **Bal.** | **1,900** |  |  |  | **22** | **130** |  |  |
|  |  |  |  |  | **Bal.** | **240** |  |  |
|  |  |  |  |  |  |  |  |  |

**(continued) P 2-62A**

***Req. 3***

|  |  |  |
| --- | --- | --- |
| **Coutier Heating and Air Conditioning, Inc.** | | |
| **Trial Balance** | | |
| **March 31** | | |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash** | **$ 4,710** |  |
| **Accounts receivable** | **550** |  |
| **Supplies** | **300** |  |
| **Equipment** | **3,000** |  |
| **Land** | **28,000** |  |
| **Accounts payable** |  | **$ 300** |
| **Common stock** |  | **37,000** |
| **Dividends** | **2,200** |  |
| **Service revenue** |  | **3,600** |
| **Salary expense** | **1,900** |  |
| **Utilities expense** | **240** |  |
| **Total** | **$40,900** | **$40,900** |

***Req. 4***

**Total resources (assets) = $36,560 ($4,710 + $550 + $300 + $3,000 + $28,000)**

**Amount owed (total liabilities) = $300**

**Profit (net income) = $1,460 ($3,600 − $1,900 − $240)**

**(40-50 min.) P 2-63A**

***Reqs. 1 and 2***

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Accounts Receivable** | | | |
| **(a)** | **25,000** | **(c)** | **31,000** |  | **(g)** | **2,800** | **(j)** | **1,900** |
| **(b)** | **34,300** | **(e)** | **2,200** |  | **Bal.** | **900** |  |  |
| **(f)** | **1,400** | **(h)** | **100** |  |  |  |  |  |
| **(j)** | **1,900** | **(k)** | **1,600** |  |  |  |  |  |
| **Bal.** | **27,700** |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Supplies** | | | |  | **Music Equipment** | | | |
| **(d)** | **200** |  |  |  | **(c)** | **31,000** |  |  |
| **Bal.** | **200** |  |  |  | **Bal.** | **31,000** |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Building** | | | |  | **Accounts Payable** | | | |
| **(a)** | **51,000** |  |  |  | **(h)** | **100** | **(d)** | **200** |
| **Bal.** | **51,000** |  |  |  |  |  | **(i)** | **700** |
|  |  |  |  |  |  |  | **Bal.** | **800** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Note Payable** | | | |  | **Common Stock** | | | |
|  |  | **(b)** | **34,300** |  |  |  | **(a)** | **76,000** |
|  |  | **Bal.** | **34,300** |  |  |  | **Bal.** | **76,000** |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Service Revenue** | | | |  | | | | |  |  | **Service Revenue** |
|  |  | **(f)** | **1,400** | |  |  |  |
|  |  | **(g)** | **2,800** | |  |  |  |
|  |  | **Bal.** | **4,200** | |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Salary Expense** | | | |  | **Rent Expense** | | | |
| **(e)** | **2,200** |  |  |  | **(k)** | **1,100** |  |  |
| **Bal.** | **2,200** |  |  |  | **Bal.** | **1,100** |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Advertising Expense** | | | |  | **Utilities Expense** | | | |
| **(k)** | **500** |  |  |  | **(i)** | **700** |  |  |
| **Bal.** | **500** |  |  |  | **Bal.** | **700** |  |  |

**(continued) P 2-63A**

### *Req. 3*

|  |  |  |
| --- | --- | --- |
| **Self Music Services Corporation** | | |
| **Trial Balance** | | |
| **October 31, 2012** | | |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash** | **$ 27,700** |  |
| **Accounts receivable** | **900** |  |
| **Supplies** | **200** |  |
| **Music equipment** | **31,000** |  |
| **Building** | **51,000** |  |
| **Accounts payable** |  | **$ 800** |
| **Note payable…** |  | **34,300** |
| **Common stock** |  | **76,000** |
| **Service revenue** |  | **4,200** |
| **Salary expense** | **2,200** |  |
| **Rent expense…** | **1,100** |  |
| **Advertising expense** | **500** |  |
| **Utilities expense** | **700** |  |
| **Total** | **$115,300** | **$115,300** |

**(15-30 min.) P 2-64B**

**Dear Rachael,**

This trial balance lists the accounts of the company, along with their balances at December 31, 2012. The trial balance provides the data for computing total assets, total liabilities, and net income or net loss.

**Famous Specialties**

**a. Total assets = $409,000 ($27,000 + $40,000 + $6,000 + $239,000 + $97,000)**

**b. Total liabilities = $189,000 ($104,000 + $85,000)**

**c. Net income = $49,000 ($160,000 − $24,000 − $10,000 − $73,000 − $4,000)**

|  |
| --- |
|  |

**Student responses may vary.**

**(45-60 min.) P 2-65B**

### *Req. 1*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Analysis of Transactions** | | | | | | | | | | | | | |
| **ASSETS** | | | | | **= LIABILITIES + STOCKHOLDERS’ EQUITY** | | | | | | | | |
|  | **Cash +** | **Accounts**  **Receivable +** | **Supplies +** | **Land =** | | **Accounts**  **Payable +** | | **Common**  **Stock +** | | **Retained**  **Earnings** | | **Type of Stockholders’**  **Equity Transaction** | |
| **Bal.** | **1,050** | **1,350** |  | **11,700** | | **7,900** | **3,600** | | **2,600** | |  | |
| **a)** | **8,900** |  |  |  | |  | **8,900** | |  | | **Issued stock** | |
| **b)** | **6,300** |  |  |  | |  |  | | **6,300** | | **Service revenue** | |
| **c)** | **(4,100)** |  |  |  | | **(4,100)** |  | |  | |  | |
| **d)** |  |  | **700** |  | | **700** |  | |  | |  | |
| **e)** | **200** | **(200)** |  |  | |  |  | |  | |  | |
| **f)** |  | **2,400** |  |  | |  |  | | **2,400** | | **Service revenue** | |
| **g)** | **(1,300)** |  |  |  | |  |  | | **(1,300)** | | **Rent expense** | |
|  | **(1,000)** |  |  |  | |  |  | | **(1,000)** | | **Advertising expense** | |
| **i)** | **(2,000)** |  | **\_\_\_** |  | |  |  | | **(2,000)** | | **Dividends** | |
| **Bal.** | **8,050** | **3,550** | **700** | **11,700** | | **4,500** | **12,500** | | **7,000** | |  | |

**$24,000 $24,000**

**(continued) P 2-65B**

### *Req. 2*

|  |  |  |
| --- | --- | --- |
| **Davis Resources, Inc.** | | |
| **Income Statement** | | |
| **Month Ended June 30, 2012** | | |
| **Revenues:** |  |  |
| **Service revenue ($6,300 + $2,300)** |  | **$ 8,700** |
| **Expenses:** |  |  |
| **Rent expense………………………...** | **$1,300** |  |
| **Advertising expense………………..** | **1,000** |  |
| **Total expenses………………………** |  | **2,300** |
| **Net income** |  | **$6,400** |

### *Req. 3*

|  |  |
| --- | --- |
| **Davis Resources, Inc.** | |
| **Statement of Retained Earnings** | |
| **For the Month Ended June 30, 2012** | |
| **Retained earnings, May 31, 2012** | **$2,600** |
| **Add: Net income** | **6,400** |
|  | **9,000** |
| **Less: Dividends** | **(2,000)** |
| **Retained earnings, June 30, 2012** | **$7,000** |

**(continued) P 2-65B**

### *Req. 4*

|  |  |  |  |
| --- | --- | --- | --- |
| **Davis Resources, Inc.** | | | |
| **Balance Sheet** | | | |
| **June 30, 2012** | | | |
| **ASSETS** | | **LIABILITIES** | |
| **Cash…………………….** | **$8,050** | **Accounts payable………….** | **$ 4,500** |
| **Accounts receivable…** | **3,550** | STOCKHOLDERS’ | |
| **Supplies…………….….** | **700** | **EQUITY** | |
| **Land…………………….** | **11,700** | **Common stock……………..** | **12,500** |
|  |  | **Retained earnings………....** | **7,000** |
|  |  | **Total stockholders’ equity.** | **19,500** |
|  |  | **Total liabilities and** |  |
| **Total assets…………...** | **$24,000** | **stockholders' equity.** | **$24,000** |

**(30-40 min.) P 2-66B**

### *Req. 1*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Journal | | | | |
|  | | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
|  | **a.** | **Cash** | **8,900** |  |
|  |  | **Common Stock** |  | **8,900** |
|  |  |  |  |  |
|  | **b.** | **Cash** | **6,300** |  |
|  |  | **Service Revenue** |  | **6,300** |
|  |  |  |  |  |
|  | **c.** | **Accounts Payable** | **4,100** |  |
|  |  | **Cash…** |  | **4,100** |
|  |  |  |  |  |
|  | **d.** | **Supplies** | **700** |  |
|  |  | **Accounts Payable** |  | **700** |
|  |  |  |  |  |
|  | **e.** | **Cash** | **200** |  |
|  |  | **Accounts Receivable…** |  | **200** |
|  |  |  |  |  |
|  | **f.** | **Accounts Receivable** | **2,400** |  |
|  |  | **Service Revenue** |  | **2,400** |
|  |  |  |  |  |
|  | **g.** | **Rent Expense** | **1,300** |  |
|  |  | **Advertising Expense…** | **1,000** |  |
|  |  | **Cash…** |  | **2,300** |
|  |  |  |  |  |
|  | **i.** | **Dividends** | **2,000** |  |
|  |  | **Cash** |  | **2,000** |

**(continued) P 2-66B**

### *Reqs. 2 and 3*

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | |  | **Accounts**  **Receivable** | |  | **Supplies** | |  | **Land** | |
| **1,050** | **4,100** |  | **1,350** | **200** |  | **700** |  |  | **11,700** |  |
| **8,900** | **1,300** |  | **2,400** |  |  |  |  |  |  |  |
| **6,300** | **1,000** |  | **3,550** |  |  | **700** |  |  | **11,700** |  |
| **200** | **2,000** |  |  |  |  |  |  |  |  |  |
| **8,050** |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts**  **Payable** | |  | **Common Stock** | |  | **Retained**  **Earnings** | |  | **Dividends** | |
| **4,100** | **7,900** |  |  | **3,600** |  |  | **2,600** |  | **2,000** |  |
|  | **700** |  |  | **8,900** |  |  |  |  |  |  |
|  | **4,500** |  |  | **12,500** |  |  | **2,600** |  | **2,000** |  |
|  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Service**  **Revenue** | |  | **Rent Expense** | |  | **Advertising**  **Expense** | |  |  | |
|  | **6,300** |  | **1,300** |  |  | **1,000** |  |  |  |  |
|  | **2,400** |  |  |  |  |  |  |  |  |  |
|  | **8,700** |  | **1,300** |  |  | **1,000** |  |  |  |  |

The balances of all the accounts Cash through Common Stock agree with the ending balances obtained in Problem 2-65B.

**(40-50 min.) P 2-67B**

### *Req. 1*

### *Classification of Transactions*

**Nov 4 b**

**5 c**

**6 c**

**7 c**

**10 b**

**11 b**

**12 a**

**18 c**

**21 c**

**25 c**

**30 c**

**(continued) P 2-67B**

### *Req. 2*

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Analysis of Transactions** | | | | | | | | | |
| **ASSETS** | | | | | **= LIABILITIES + STOCKHOLDERS’ EQUITY** | | | | |
| **Date** | **Cash +** | **Accounts**  **Receivable +** | **Supplies +** | **Office**  **Equipment=** | | **Accounts**  **Payable +** | **Common**  **Stock +** | **Retained**  **Earnings** | **Type of Stockholders’**  **Equity Transaction** |
| **Nov. 4\*** |  |  |  |  | |  |  |  |  |
| **5** | **54,000** |  |  |  | |  | **54,000** |  | **Issued stock** |
| **6** | **(1,000)** |  | **1,000** |  | |  |  |  |  |
| **7** | **(9,500)** |  |  | **17,000** | | **7,500** |  |  |  |
| **10\*** |  |  |  |  | |  |  |  |  |
| **11\*** |  |  |  |  | |  |  |  |  |
| **12\*** |  |  |  |  | |  |  |  |  |
| **18** |  | **4,500** |  |  | |  |  | **4,500** | **Service revenue** |
| **21** | **(3,750)** |  |  |  | | **(3,750)** |  |  |  |
| **25** | **(1,000)** |  |  |  | |  |  | **(1,000)** | **Rent expense** |
| **30** | **(1,800)** |  | **\_\_\_** |  | |  |  | **(1,800)** | **Dividend** |
| **Bal.** | **36,950** | **4,500** | **1,000** | **17,000** | | **3,750** | **54,000** | **1,700** |  |

**$59,450 $59,450**

**\_\_\_\_\_**

**\*Not a transaction of the business.**

**(continued) P 2-67B**

***Req. 3***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Journal | | | | |
| **DATE** | | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **Nov.** | **5** | **Cash** | **54,000** |  |
|  |  | **Common Stock…** |  | **54,000** |
|  |  | **Issued stock to owner.** |  |  |
|  |  |  |  |  |
|  | **7** | **Supplies** | **1,000** |  |
|  |  | **Cash…** |  | **1,000** |
|  |  | **Purchased supplies.** |  |  |
|  |  |  |  |  |
|  | **9** | **Office Equipment…** | **17,000** |  |
|  |  | **Cash…** |  | **9,500** |
|  |  | **Accounts Payable…** |  | **7,500** |
|  |  | **Purchased furniture.** |  |  |
|  |  |  |  |  |
|  | **23** | **Accounts Receivable** | **4,500** |  |
|  |  | **Service Revenue** |  | **4,500** |
|  |  | **Performed service on account.** |  |  |
|  |  |  |  |  |
|  | **29** | **Accounts Payable** | **3,750** |  |
|  |  | **Cash** |  | **3,750** |
|  |  | **Paid on account.** |  |  |
|  |  |  |  |  |
|  | **30** | **Rent Expense** | **1,000** |  |
|  |  | **Cash .** |  | **1,000** |
|  |  | **Paid rent.** |  |  |
|  |  |  |  |  |
|  | **31** | **Dividends…** | **1,800** |  |
|  |  | **Cash…** |  | **1,800** |
|  |  | **Paid dividend.** |  |  |

**(15-20 min.) P 2-68B**

***Req. 1***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Journal | | | | |
| **DATE** | | **ACCOUNT TITLES** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **Dec** | **1** | **Cash** | **25,000** |  |
|  |  | **Common Stock** |  | **25,000** |
|  |  |  |  |  |
|  | **5** | **Rent Expense…** | **1,600** |  |
|  |  | **Cash** |  | **1,600** |
|  |  |  |  |  |
|  | **9** | **Land** | **44,500** |  |
|  |  | **Cash…** |  | **8,500** |
|  |  | **Notes Payable…** |  | **36,000** |
|  |  |  |  |  |
|  | **10** | **Supplies** | **1,000** |  |
|  |  | **Accounts Payable** |  | **1,000** |
|  |  |  |  |  |
|  | **19** | **Accounts Payable** | **650** |  |
|  |  | **Cash** |  | **650** |
|  |  |  |  |  |
|  | **22** | **Cash** | **20,000** |  |
|  |  | **Notes Payable…** |  | **20,000** |
|  |  |  |  |  |
|  | **31** | **Cash** | **13,500** |  |
|  |  | **Accounts Receivable** | **5,000** |  |
|  |  | **Service Revenue** |  | **18,500** |
|  |  |  |  |  |
|  | **31** | **Salary Expense…** | **2,700** |  |
|  |  | **Advertising Expense…**  **Utilities Expense** | **1,700**  **1,100** |  |
|  |  | **Cash** |  | **5,500** |
|  |  |  |  |  |
|  | **30** | **Dividends** | **4,000** |  |
|  |  | **Cash** |  | **4,000** |
|  |  |  |  |  |

**(continued) P 2-68B**

***Req. 2***

|  |  |  |  |
| --- | --- | --- | --- |
| **Cash** | | | |
|  | **25,000** |  | **1,600** |
|  | **20,000** |  | **8,500** |
|  | **13,500** |  | **650** |
|  |  |  | **2,700**  **1,700**  **1,100** |
|  |  |  | **4,000** |
|  | **38,250** |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Accounts Payable** | | | |
|  | **650** |  | **1,000** |
|  |  |  | **350** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Notes Payable** | | | |
|  |  |  | **36,000** |
|  |  |  | **20,000** |
|  |  |  | **56,000** |

***Req. 3***

**Cash: $38,250**

**Total amount owed: $56,350 ($350 + $56,000)**

**(50-60 min.) P 2-69B**

***Req. 1***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Journal | | | | |
| **DATE** | | **ACCOUNT TITLES** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **Mar.** | **2** | **Cash** | **35,000** |  |
|  |  | **Common Stock…** |  | **35,000** |
|  |  |  |  |  |
|  | **3** | **Supplies…** | **200** |  |
|  |  | **Equipment** | **3,200** |  |
|  |  | **Accounts Payable…** |  | **3,400** |
|  |  |  |  |  |
|  | **4** | **Cash……** | **1,400** |  |
|  |  | **Service Revenue…** |  | **1,400** |
|  |  |  |  |  |
|  | **7** | **Land** | **24,000** |  |
|  |  | **Cash…** |  | **24,000** |
|  |  |  |  |  |
|  | **11** | **Accounts Receivable…** | **800** |  |
|  |  | **Service Revenue** |  | **800** |
|  |  |  |  |  |
|  | **16** | **Accounts Payable** | **3,200** |  |
|  |  | **Cash** |  | **3,200** |
|  |  |  |  |  |
|  | **17** | **Utilities Expense** | **150** |  |
|  |  | **Cash…** |  | **150** |
|  |  |  |  |  |
|  | **18** | **Cash…** | **400** |  |
|  |  | **Accounts Receivable…** |  | **400** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **22** | **Utilities Expense** | **170** |  |
|  |  | **Cash** |  | **170** |
|  |  |  |  |  |
|  | **29** | **Cash** | **1,500** |  |
|  |  | **Service Revenue** |  | **1,500** |
|  |  |  |  |  |
|  | **31** | **Salary Expense** | **1,800** |  |
|  |  | **Cash** |  | **1,800** |
|  |  |  |  |  |
|  | **31** | **Dividends** | **2,100** |  |
|  |  | **Cash** |  | **2,100** |

**(continued) P 2-69B**

***Req. 2***

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Accounts Receivable** | | | |
| **Mar. 2** | **35,000** | **Mar. 7** | **24,000** |  | **Mar. 11** | **800** | **Mar. 18** | **400** |
| **4** | **1,400** | **16** | **3,200** |  | **Bal.** | **400** |  |  |
| **18** | **400** | **17** | **150** |  |  |  |  |  |
| **29** | **1,500** | **22** | **170** |  |  |  |  |  |
|  |  | **31** | **1,800** |  | **Supplies** | | | |
|  |  | **31** | **2,100** |  | **Sept. 3** | **200** |  |  |
| **Bal.** | **6,880** |  |  |  | **Bal.** | **200** |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Equipment** | | | |  | **Land** | | | |
| **Mar. 3** | **3,200** |  |  |  | **Mar. 7** | **24,000** |  |  |
| **Bal.** | **3,200** |  |  |  | **Bal.** | **24,000** |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | |  | **Common Stock** | | | |
| **Mar. 16** | **3,200** | **Mar.3** | **3,400** |  |  |  | **Mar. 2** | **35,000** |
|  |  | **Bal.** | **200** |  |  |  | **Bal.** | **35,000** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Dividends** | | | |  | **Service Revenue** | | | |
| **Mar. 31** | **2,100** |  |  |  |  |  | **Mar. 4** | **1,400** |
| **Bal.** | **2,100** |  |  |  |  |  | **11** | **800** |
|  |  | |  |  |  |  | **29** | **1,500** |
|  |  | |  |  |  |  | **Bal.** | **3,700** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | |  |  | | | |
| **Salary Expense** | | | |  | **Utilities Expense** | | | |
| **Mar. 31** | **1,800** |  |  |  | **Mar. 17**  **22** | **150**  **170** |  |  |
| **Bal.** | **1,800** |  |  |  | **Bal.** | **320** |  |  |

**(continued) P 2-69B**

### *Req. 3*

|  |  |  |
| --- | --- | --- |
| **Johnson Plumbing, Inc.** | | |
| **Trial Balance** | | |
| **March 31** | | |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash** | **$ 6,880** |  |
| **Accounts receivable** | **400** |  |
| **Supplies** | **200** |  |
| **Equipment** | **3,200** |  |
| **Land** | **24,000** |  |
| **Accounts payable** |  | **$ 200** |
| **Common stock** |  | **35,000** |
| **Dividends** | **2,100** |  |
| **Service revenue** |  | **3,700** |
| **Salary expense** | **1,800** |  |
| **Utilities expense** | **320** |  |
| **Total** | **$38,900** | **$38,900** |

***Req. 4***

**Total resources (assets) = $34,680 ($6,880 + $400 + $200 + $3,200 + $24,000)**

**Amount owed (total liabilities) = $200**

**Profit (net income) = $1,580 ($3,700 − $1,800 − $320)**

**(40-50 min.) P 2-70B**

### *Reqs. 1 and 2*

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Accounts Receivable** | | | |
| **(a)** | **19,000** | **(c)** | **37,000** |  | **(g)** | **2,900** | **(j)** | **1,100** |
| **(b)** | **41,100** | **(e)** | **2,000** |  | **Bal.** | **1,800** |  |  |
| **(f)** | **1,600** | **(h)** | **200** |  |  |  |  |  |
| **(j)** | **1,100** | **(k)** | **1,800** |  |  |  |  |  |
| **Bal.** | **21,800** |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Supplies** | | | |  | **Music Equipment** | | | |
| **(d)** | **300** |  |  |  | **(c)** | **37,000** |  |  |
| **Bal.** | **300** |  |  |  | **Bal.** | **37,000** |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Building** | | | |  | **Accounts Payable** | | | |
| **(a)** | **53,000** |  |  |  | **(h)** | **200** | **(d)** | **300** |
| **Bal.** | **53,000** |  |  |  |  |  | **(i)** | **900** |
|  |  |  |  |  |  |  | **Bal.** | **1,000** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Note Payable** | | | |  | **Common Stock** | | | |
|  |  | **(b)** | **41,100** |  |  |  | **(a)** | **72,000** |
|  |  | **Bal.** | **41,100** |  |  |  | **Bal.** | **72,000** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | |  | **Service Revenue** | | | |
|  |  |  |  |  |  |  | **(f)** | **1,600** |
|  |  |  |  |  |  |  | **(g)** | **2,900** |
|  |  |  |  |  |  |  | **Bal.** | **4,500** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Salary Expense** | | | |  | **Advertising Expense** | | | |
| **(e)** | **2,000** |  |  |  | **(k)** | **800** |  |  |
| **Bal.** | **2,000** |  |  |  | **Bal.** | **800** |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Rent Expense** | | | |  | **Utilities Expense** | | | |
| **(k)** | **1,000** |  |  |  | **(i)** | **900** |  |  |
| **Bal.** | **1,000** |  |  |  | **Bal.** | **900** |  |  |

**(continued) P 2-70B**

### *Req. 3*

|  |  |  |
| --- | --- | --- |
| **Star Entertainment Corporation** | | |
| **Trial Balance** | | |
| **February 29, 2012** | | |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash……………………………** | **$ 21,800** |  |
| **Accounts receivable………...** | **1,800** |  |
| **Supplies……………………….** | **300** |  |
| **Music equipment………….....** | **37,000** |  |
| **Building………………………..** | **53,000** |  |
| **Accounts payable……………** |  | **$ 1,000** |
| **Note payable………………….** |  | **41,100** |
| **Common stock……………….** |  | **72,000** |
| **Service revenue………………** |  | **4,500** |
| **Salary expense……………….** | **2,000** |  |
| **Advertising expense………...** | **1,000** |  |
| **Rent expense…………………** | **900** |  |
| **Utilities expense……………..** | **800** |  |
| **Total…………………………….** | **$118,600** | **$118,600** |

**Challenge Exercises and Problem**

**(20-40 min.) E 2-71**

**a. Total cash paid during December:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Cash** | | | |  |
| **Nov. 30 Bal.** | **10,000** |  |  |  |
| **Dec. receipts** | **82,000** | **Dec. payments** | **X** | **= $87,000** |
| **Dec. 31 Bal.** | **5,000** |  |  |  |

|  |  |
| --- | --- |
| **$10,000 + $82,000 − X** | **= $ 5,000** |
| **X** | **= $87,000** |

**b. Cash collections from customers during December:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Accounts Receivable** | | | |  |
| **Nov 30 Bal.** | **27,000** |  |  |  |
| **Dec. sales** |  |  |  |  |
| **on account** | **54,000** | **Dec. collections** | **X** | **= $56,000** |
| **Dec. 31 Bal.** | **25,000** |  |  |  |

|  |  |  |
| --- | --- | --- |
| **$27,000 + $54,000 − X** | | **= $25,000** |
|  | **X** | **= $56,000** |

**c. Cash paid on notes payable during December:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Notes Payable** | | | |
|  |  |  | **Nov. 30 Bal.** | **11,000** |
| **X = 24,000** | **Dec. note payments** | **X** | **Dec. new borrowing** | **32,000** |
|  |  |  | **Dec. 31 Bal.** | **19,000** |

|  |  |
| --- | --- |
| **$11,000 + $32,000 − X** | **= $19,000** |
| **X** | **= $24,000** |

**(20-30 min.) E 2-72**

***Req. 1***

|  |  |  |
| --- | --- | --- |
| **Rectangle 120, Inc.** | | |
| **Trial Balance** | | |
| **August 31, 2012** | | |
|  |  |  |
| **Cash…………………………...** | **$ 3,900** |  |
| **Accounts receivable………..** | **7,400** |  |
| **Land…………………………...** | **34,400** |  |
| **Accounts payable…………..** |  | **$ 6,000** |
| **Note payable…………………** |  | **5,500** |
| **Common stock………………** |  | **20,100** |
| **Retained earnings…………..** |  | **7,500** |
| **Service revenue……………..** |  | **9,500** |
| **Salary expense………………** | **3,300** |  |
| **Advertising expense……….** | **1,100** | **\_\_\_\_\_\_\_** |
| **Totals………………………….** | **$50,100** | **$48,600** |

**Out of balance by $1,500**

**The correct balance of Accounts Receivable is $5,900\* ($7,400 − $1,500). After this correction, total debits will be $48,600 ($50,100 − $1,500), the same as total credits.**

***Req. 2***

**a. Total assets = $44,200 ($3,900 + $5,900\* + $34,400)**

**b. Total liabilities = $11,500 ($6,000 + $5,500)**

**c. Net income = $ 5,100 ($9,500 − $3,300 − $1,100)**

**(10-15 min.) E 2-73**

|  |  |  |
| --- | --- | --- |
| **Burlington Co.:** |  |  |
| **Income statement** | **November** | December |
| **Medical expense** | **$44,000** | **$ -0-** |
|  |  |  |
| **Balance sheet** | **Nov. 30** | Dec. 31 |
| **Cash** | **$53,000** | **$23,000\*** |
| **Accounts payable** | **44,000** | **14,000\*\*** |
|  |  |  |
| **Gardner Hospital:** |  |  |
| **Income statement** | **November** | December |
| **Service revenue** | **$44,000** | **$ -0-** |
|  |  |  |
| **Balance sheet** | Nov. 30 | Dec. 31 |
| **Cash** | **$ -0-** | **$30,000** |
| **Accounts receivable** | **44,000** | **14,000\*\*** |

**Explanation:**

**Burlington’s $44,000 expense is Gardner’s revenue.**

**Burlington’s $30,000 cash payment is Gardner’s cash receipt.**

**Burlington’s $14,000 account payable is Gardner’s account receivable.**

**\_\_\_\_\_\_\_\_\_\_**

**\*$53,000 − $30,000 = $23,000**

**\*\*$44,000 − $30,000 = $14,000**

**(20 min.) P 2-74**

***Req 1***.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** | | **Effect**  **on Cash** | | **Effect on Total Assets** | | **Effect on**  **Net Income** |
| **May 1** | | **Understated $300** | | **Correct** | | **Overstated $300** | |
| **2** | | **Overstated $4,500** | | **Overstated $4,500** | | **Correct** | |
| **5** | | **Correct** | | **Correct** | | **Understated $1,000** | |
| **10** | | **Correct** | | **Correct** | | **Correct** | |
| **16** | | **Correct** | | **Correct** | | **Overstated $2,000** | |
| **25** | | **Correct** | | **Overstated $1,500** | | **Correct** | |

***Req. 2.***

**Correct cash balance, $1,300 ($5,500 +$300 - $4,500)**

***Req.3.***

**Correct total assets, $19,000 ($25,000 - $4,500 - $1,500)**

***Req.*  4.**

**Correct net income, $8,700 ($10,000 - $300 +$1,000 - $2,000)**

**Decision Cases**

**(40-50 min.) Decision Case 1**

***Reqs. 1 and 2***

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Accounts Receivable** | | | |
| **(a)** | **5,000** | **(c)** | **1,300** |  | **(g)** | **7,000** | **(i)** | **1,200** |
| **(b)** | **5,000** | **(d)** | **1,800** |  | **Bal.** | **5,800** |  |  |
| **(h)** | **2,500** | **(f)** | **2,000** |  |  |  |  |  |
| **(i)** | **1,200** | **(f)** | **1,200** |  |  |  |  |  |
|  |  | **(j)** | **1,000** |  |  |  |  |  |
| **Bal.** | **6,400** |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Supplies** | | | |  | **Furniture** | | | |
| **(c)** | **1,300** |  |  |  | **(e)** | **4,400** |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | |  | **Notes Payable** | | | |
| **(j)** | **1,000** | **(e)** | **4,400** |  |  |  | **(b)** | **5,000** |
|  |  | **Bal.** | **3,400** |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Common Stock** | | | |  |  | | | |
|  |  | **(a)** | **5,000** |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Service Revenue** | | | |  | **Salary Expense** | | | |
|  |  | **(g)** | **7,000** |  | **(f)** | **2,000** |  |  |
|  |  | **(h)** | **2,500** |  |  |  |  |  |
|  |  | **Bal.** | **9,500** |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Advertising Expense** | | | |  | **Rent Expense** | | | |
| **(d)** | **1,800** |  |  |  | **(f)** | **1,200** |  |  |

**(continued) Decision Case 1**

***Req. 3***

|  |  |  |
| --- | --- | --- |
| **Barlow Networks, Inc.** | | |
| **Trial Balance** | | |
| **Current Date** | | |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash…………………………...** | **$6,400** |  |
| **Accounts receivable………..** | **5,800** |  |
| **Supplies………………………** | **1,300** |  |
| **Furniture……………………...** | **4,400** |  |
| **Accounts payable…………..** |  | **$ 3,400** |
| **Notes payable………………..** |  | **5,000** |
| **Common stock………………** |  | **5,000** |
| **Service revenue……………..** |  | **9,500** |
| **Salary expense………………** | **2,000** |  |
| **Advertising expense………..** | **1,800** |  |
| **Rent expense………………...** | **1,200** |  |
| **Total…………………………...** | **$22,900** | **$22,900** |

***Req. 4 (net income or loss for first month of operations)***

|  |  |  |
| --- | --- | --- |
| **Revenues:** |  |  |
| **Service revenue** |  | **$9,500** |
| **Expenses:** |  |  |
| **Salary expense** | **$2,000** |  |
| **Advertising expense** | **1,800** |  |
| **Rent expense** | **1,200** |  |
| **Total expenses** |  | **5,000** |
| **Net income for month** |  | **$4,500** |

***Recommendation:* Barlow may want to review his criteria for keeping the business open. His criteria for remaining in operation was net income of $5,000. His actual result was close to his goal. Perhaps he was unrealistic in his expectations. Most businesses, large and small, incur losses in their first months of operation. Barlow Networks actually earned a profit! The author suggests that Barlow stick it out for another few months, at least.**

**(20-30 min.) Decision Case 2**

|  |  |
| --- | --- |
| **Little Italy, Inc.** | |
| **Income Statement** | |
| **Month Ended December 31, 2012** | |
|  |  |
| **Sales revenue……………………………..** | **$42,000** |
|  |  |
| **Cost of goods sold (expense)………….** | **22,000** |
| **Rent expense……………………………...** | **6,000** |
| **Advertising expense……………………..** | **5,000** |
| **Total expenses…………………………** | **33,000** |
|  |  |
| **Net income…………………………………** | **$ 9,000** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Little Italy, Inc.** | | | |
| **Balance Sheet** | | | |
| **December 31, 2012** | | | |
| **ASSETS** | | **LIABILITIES** | |
| **Cash………………..** | **$ 12,000** | **Accounts payable………** | **$ 8,000** |
| **Food inventory…...** | **5,000** | **OWNERS’ EQUITY** | |
| **Furniture…………...** | **10,000** | **Common stock………….** | **10,000** |
|  |  | **Retained earnings……...** | **9,000\*** |
|  |  | **Total owners’ equity...** | **19,000** |
|  |  | **Total liabilities** |  |
| **Total assets…….** | **$27,000** | **and equity………….** | **$27,000** |

**\_\_\_\_\_**

**\*Must solve for this amount. It is also the amount of net income, which is the only change in retained earnings for the month.**

***Recommendation*: Do not expand this month. The business falls short of the goals for both net income and total assets. However, Little Italy, Inc. appears to be profitable, and assets are building toward Sophia’s goals. Maybe next month.**

**Ethical Issue 1**

1. The ethical issue is whether these alternatives of financing the business are proper from an economic, legal, and ethical standpoint.
2. The stakeholders are Scruffy Murphy, the bank, potential new creditors, and the friend who may become a stockholder.

|  |  |  |  |
| --- | --- | --- | --- |
| Option 1: | Cash…………………………. | 100,000 |  |
|  | Common Stock…… |  | 100,000 |
|  |  |  |  |
| Option 2: | Land…………………………. | 100,000 |  |
|  | Common Stock…… |  | 100,000 |
|  |  |  |  |
|  | Common Stock…………….. | 100,000 |  |
|  | Land………………… |  | 100,000 |

**Option 1 is economically sound, perfectly legal, and also ethical because the sale of the stock is a valid transaction between the business and a stockholder. The consequences of this decision are that Murphy obtains additional financing at a cost (he now shares ownership of the business with his friend). The friend gives up cash in exchange for an ownership interest in the business. The bank and future creditors obtain complete and truthful disclosure of the manner in which the business has been financed.**

**Option 2 represents “window dressing” (making the company look like an entity that it is not). Although it might be legal in the strictest sense of the word (and it might not), this option does not faithfully represent economic reality. Thus, it is not in accordance with GAAP, which is a substitute for the legal criterion. This option is also unethical because the receipt of the land by the business is not a real transaction. The transfer of the land back to Murphy means that the business never actually has the land for its use. It violates the rights of the bank and future creditors to give them information that is inaccurate and that does not faithfully represent economic reality.**

**The best option to take is definitely Option 1. The decision maker can walk away from this transaction confident that he or she told the truth. Ethical Issue 2**

**Part A.**

**1. The ethical issue is whether you should question your grade, which is higher than you expected. Your choices are (a) discuss the grade with the professor; and (b) do not discuss the grade with the professor.**

**2, 3. Stakeholders are you, the professor, the other students in the class, and the university. The possible consequences to you of discussing the grade with the professor is that it may lead to the discovery that the professor made a mistake in calculating the grade, which may lead to a downward adjustment. While this could possibly have adverse economic consequences (i.e., perhaps loss of scholarship if the is substantially lowered), it is unlikely that a letter-grade drop in one course would have such an impact on grade point average as to cause loss of a scholarship. There is no legal consequence to reporting a grade that is too high. The ethical consequence is generally positive on all concerned, as it leads to clarification of the true grade.**

**4. Student opinions will vary on this part.**

**Part B.**

**1. The ethical issue in this case is whether you should question your grade, which is now lower than you expected. Your choices are (a) discuss the grade with the professor; and (b) do not discuss the grade with the professor.**

**2, 3. Like part a, the stakeholders are you, the professor, the other students in the class, and the university. The possible consequences to you of discussing the grade with the professor is that it may lead to the discovery that the professor made a mistake in calculating the grade, which may lead**

**(continued) Ethical Issue 2**

**to an upward adjustment. This could have positive economic consequences (i.e., perhaps keeping a scholarship). Like part a, the ethical consequence of this action is generally positive on all concerned, as it leads to clarification of the true grade.**

**4. Most students would probably respond “take it to the professor.” But shouldn’t we be just as concerned about knowing the true grade either way? The author recommends discussing the grade with the professor one way or the other.**

**Part C.**

**Both course grades and financial statements report results that people use in order to make decisions that can carry both positive and negative consequences. In both situations, it is important that the user receive relevant information, and that the information faithfully represent facts as they actually occurred.**

**Focus on Financials: Amazon.com, Inc.**

**(20-30 min.)**

***Reqs. 1 and 3***

***(All amounts in millions)***

****

**(continued) Amazon.com, Inc.**

***Req. 2***

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | ***(Millions)*** | |
| **a.** | **Accounts Receivable, net .** | **34,204** |  |
|  | **Net Sales (Revenue)** |  | **34,204** |
|  |  |  |  |
| **b.** | **Cash** | **33,605** |  |
|  | **Accounts Receivable, net** |  | **33,605** |
|  |  |  |  |
| **c.** | **Inventories** | **27,592** |  |
|  | **Accounts Payable.** |  | **27,592** |
|  |  |  |  |
| **d.** | **Cost of Sales** | **26,561** |  |
|  | **Inventories** |  | **26,561** |
|  |  |  |  |
| **e.** | **Accounts Payable** | **25,146** |  |
|  | **Cash** |  | **25,146** |
|  |  |  |  |
| **f.** | **Operating Expenses** | **6,237** |  |
|  | **Cash** |  | **6,237** |
|  |  |  |  |
| **g.** | **Cash** | **91** |  |
|  | **Non-operating income** |  | **91** |
|  |  |  |  |
| **h.** | **Provision for income taxes** | **352** |  |
|  | **Cash** |  | **352** |
|  |  |  |  |
| **i.** | **Other Assets** | **7** |  |
|  | **Equity Method Investment Activity, net** |  | **7** |
|  |  |  |  |
| **j.** | **Fixed Assets** | **1,124** |  |
|  | **Other assets** | **504** |  |
|  | **Cash** |  | **1,628** |

**(continued) Amazon.com, Inc.**

***Req. 4***

All the selected account balances except other assets agree with Amazon.com, Inc.’s actual figures on the income statement or the balance sheet.

***Req. 5***

|  |  |  |
| --- | --- | --- |
| **Revenue:** | ***(Millions)*** | |
| **Net sales** |  | **$34,204** |
| **Non-operating income, net** |  | **91** |
| **Equity method investment activity, net** |  | **7** |
| **Total revenue** |  | **34,302** |
| **Expenses:**  **Cost of sales** | **$26,561** |  |
| **Operating (expenses)** | **6,237** |  |
| **Provision for income taxes**  **Total expenses** | **352** | **33,150** |
| **Net income** |  | **$1,152** |

**Focus on Analysis: RadioShack, Corp.**

**(20-30 min.)**

***Req. 1***

During fiscal 2010, RadioShack, Corp. had more sales than cash collections. This is determined by analyzing net receivables, as follows:

Net receivables (from Note 3):

|  |  |  |
| --- | --- | --- |
|  |  | ***(Millions)*** |
|  | **Balance at the end of fiscal 2009** | **$ 49.1** |
| **+** | **Sales during fiscal 2010…(from consolidated**  **statement of operations)** | 4,472.7 |
| **−** | **Collections from customers during fiscal 2007** | **(X)** |
| **=** | **Balance at the end of fiscal 2010** | **$ 57.6** |

Solving for X, collections were $4,464.2 (49.1 + 4,472.7 – 57.6). Another way to express this relationship is that when accounts receivable increase during the year, sales must exceed cash collections. If accounts receivable decrease during the year, cash collections must exceed sales.

**(continued) RadioShack Corp.**

***Req. 2***

Sales increased slightly in 2009 but increase more substantially in 2010 perhaps due to a better economy. Net income increased more dramatically in 2009 and only slightly in 2010 largely due to an increase in Cost of Goods Sold and Selling, General, and Administrative Expenses.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **2010** | **2009** | | **2008** |
| **Net sales (millions)** |  | **$4,472.7** | **$4,276.0** | | **$4,224.5** |
| **$ change** |  | **196.7** | **51.5** | |  |
| **Percentage change** |  | 4.60% | 1.22% |  | |
|  |  |  |  |  | |
|  |  |  |  | |  |
| **Net income (millions)** |  | **$206.1** | **$205.0** | | **$189.4** |
| **$ change** |  | **1.1** | **15.6** | |  |
| **Percentage change** |  | 0.54% | 8.24% |  | |

**Group Projects**

**Student responses will vary.**